

Valmet

Company report

04/24/2024 22:20



Antti Viljakainen
+358 44 591 2216
antti.viljakainen@inderes.fi

This report is a summary translation of the report "Lasi on puoliksi täynnä" published on 4/24/2024 at 10:22 pm EEST

inde
res.

The glass is half full

We find the overall picture of Valmet's Q1 report neutral, even though there was strong discord in the businesses, especially in terms of orders and demand outlook. However, we prefer to see the glass as half full, as the stable businesses that are important for Valmet's result and value develop at least reasonably, which compensates for the headwind caused by the weakness of the device businesses' orders and order outlook, especially for next year. After the report, the decreases in earnings forecasts were minor at Group level. We reiterate our Accumulate recommendation and EUR 28.00 target price for Valmet. We believe that the upside in Valmet's low valuation and the good dividend yield of nearly 6% still generate a higher expected return than the required return on a one-year scope.

Operating result met expectations and was only slightly below the consensus

In Q1, Valmet's revenue decreased by 8% to 1,212 MEUR, which fell short of our and the consensus estimates. Acquisitions (Körber) boosted revenue by 4 percentage points. Automation and Services grew slowly, but the revenue drop of Process Technologies (PT) by over 20% pushed the Group's revenue down. Valmet's adjusted EBITA fell by 9% from Q1'23 to 121 MEUR, which was in line with our forecast that was below the consensus. The Group's earnings drop was created by the slight drop in Services' margin from the high comparison period and PT's revenue. Valmet's new orders decreased by as much as 32% in Q1 from a record-breaking comparison period to 1,050 MEUR, which was well below both our and consensus forecasts. The decline in orders was driven especially by PT's orders, which were at the weakest level in living memory. We believe this was due to the difficulties in the forest sector in recent history and partly to timing factors. Also in Automation, orders probably fell mainly due to reasons related to forest sector investments. Service orders decreased from a record-high comparison level by 9%, but the backlog was the second-best in history and significantly higher than our forecast. In terms of the market outlook, the outlook for both Pulp and Board fell and Services increased, indicating continued discord in demand.

Slightly negative forecast changes for the next few years

Valmet reiterated its guidance for the current year stating that in 2024, revenue will be at the same level as in 2023 and earnings (adjusted EBITA) will be at the same level or higher compared to 2023 (2023: revenue 5,532 MEUR, adjusted EBITA 619 MEUR). Repeating the guidance at this stage of the year was what the market expected. We find the guidance realistic despite the Q1 underperformance and the 18% weaker order backlog in Q1 than in the comparison period, as 1) the order backlog turns to revenue faster than in the comparison period 2) the outlook for high-margin Services points upward. Our forecasts for this year are at the bottom of the guidance levels. At Group level, the drops in earnings forecasts for the next few years were minor despite the cut in device businesses as the forecasts for Services increased thanks to the strong Q1 report. We expect earnings growth from Valmet only in 2026, as the improvements in stable businesses will be buried under PT's revenue-driven drop.

The stock seems undervalued, although the acceptable valuation level is moderate in the near future

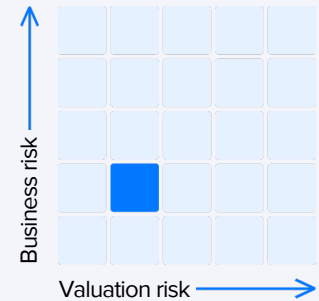
Valmet's adjusted P/E ratios for 2024 and 2025 are 12x and 11x, and corresponding EV/EBIT ratios are around 9x. The valuation is below Valmet's historical levels and in relative terms, the share is severely undervalued. Although earnings growth that will be difficult for some time limits the acceptable valuation to moderate levels, we believe the upside in Valmet's valuation that has a convincing track record and strong competitive advantages and the 6% dividend yield offers a higher expected return than the required return even on a one-year horizon. The DCF model also continues to support a positive view of the stock.

Recommendation

Accumulate
(previous Accumulate)

EUR 28.00
(previous EUR 28.00)

Share price:
EUR 24.34



Key figures

	2023	2024e	2025e	2026e
Revenue	5532	5404	5049	5303
growth-%	9%	-2%	-7%	5%
EBIT adj.	598	602	596	647
EBIT-% adj.	10.8 %	11.1 %	11.8 %	12.2 %
Net Income	358	338	351	395
EPS (adj.)	2.31	2.24	2.22	2.48

P/E (adj.)	11.3	10.9	11.0	9.8
P/B	1.9	1.7	1.6	1.6
Dividend yield-%	5.2 %	5.8 %	6.0 %	5.9 %
EV/EBIT (adj.)	9.8	9.0	8.8	7.8
EV/EBITDA	8.4	7.5	7.1	6.4
EV/S	1.1	1.0	1.0	0.9

Source: Inderes

Guidance

(Unchanged)

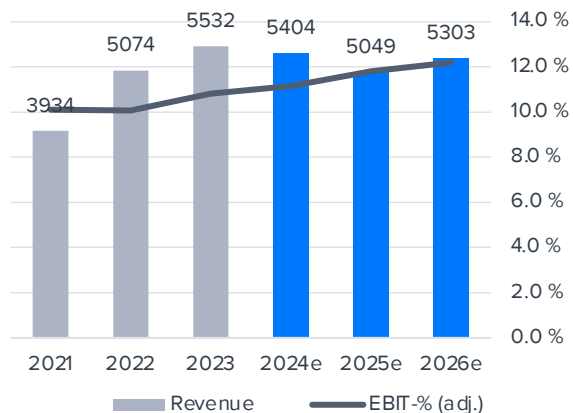
Valmet's estimates that in 2024, revenue will be at the same level as in 2023 and earnings (adjusted EBITA) will be at the same level or increase compared to 2023 (2023: revenue 5,532 MEUR, adjusted EBITA 619 MEUR).

Share price



Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Strong and sustainable technological competitive advantage
- Very high market share in the equipment business
- Good long-term growth outlook for stable businesses
- Profitability still has room for improvement
- Inorganic growth in Services and Automation



Risk factors

- Cyclical demand, especially in the equipment businesses
- Long-term organic growth outlook is limited
- Fierce competition, especially in times of weaker demand
- Project risks
- Customers' weak investment cycle being prolonged

Valuation	2024e	2025e	2026e
Share price	24.3	24.3	24.3
Number of shares, millions	184.5	184.5	184.5
Market cap	4491	4491	4491
EV	5533	5289	5049
P/E (adj.)	10.9	10.9	9.8
P/E	13.4	12.7	11.3
P/B	1.7	1.6	1.6
P/S	0.8	0.9	0.8
EV/Sales	1.0	1.0	0.9
EV/EBITDA	7.5	7.1	6.4
EV/EBIT (adj.)	9.0	8.8	7.8
Payout ratio (%)	76.4 %	76.2 %	66.8 %
Dividend yield-%	5.8 %	6.0 %	5.9 %

Source: Inderes

Strong discord in orders and order outlook is the biggest surprise

Revenue did not meet forecasts

Valmet's revenue in Q1 fell by 8 % to 1,212 MEUR, falling short of our and consensus estimates. The underperformance was mainly due to a deeper decline in PT's revenue than expected. Services and Automation grew slowly. The Körber acquisition completed at the beginning of November supported growth by 4%, so organically revenue decreased by two digits.

Operational profitability at the expected level

Adjusted EBITA that fell by 9 % from the comparison period to 121 MEUR, was in line with our expectations. Among divisions, Services and Automation fully met our expectations. The result of Process Technologies was slightly lower than our forecast due to revenue, but correspondingly the item "Other" was lower than our expectations.

In the lower lines, PPA depreciation, financial costs and taxes were roughly at the levels we expected. Valmet also recorded one-of costs of some 7 MEUR in Q4 (not in forecasts). The reported EPS at EUR 0.30 fell below the comparison period, as well as our and consensus forecasts.

Valmet's free cash flow after investments that fluctuates heavily was 109 MEUR in Q1. Thus, the company's net indebtedness decreased slightly from the end of 2023 to 39%. Net debt/EBITDA decreased correspondingly to 1.36x. Thus, Valmet's balance sheet is in good condition

Device orders and order outlook failed

Valmet's new orders continued decreasing in all three segments and in all geographic areas in Q1. Overall, new orders decreased by 32% year-on-year to 1,050 MEUR, which was well below our forecast of 1.2 BNEUR, which was slightly below the consensus. Service orders decreased significantly less than we

expected (-9%), probably reflecting the recovered utilization rates of customers. By contrast, orders in Automation decreased more than we expected (-16%) probably due to reasons related to the forest sector, but the root cause of the underperformance compared to the order forecast was the 67% dive in new orders to the weakest level in living memory.

Valmet lowered the outlook for Pulp and Board and Paper businesses, which are part of Process Technologies, while the outlook for Services was raised. Thus, the discord in orders is likely to continue in the near term. Valmet's order book at the end of Q1 was at a moderate level of 3.8 BNEUR, but down -32 % from high level of Q1'23. (incl. the order book that came in with Körber) Valmet estimates that 75 % of the order book will turn into revenue this year. Last year, the corresponding figure was 65%. Thus, the order book is "shorter" than last year, which supports 2024 but raises risks for 2025.

Estimates MEUR / EUR	Q1'23	Q1'24	Q1'24e	Q1'24e	Consensus		Difference (%)	2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	1321	1212	1259	1279	1183	- 1340	-4%	5404
Oikaistu EBITA	133	121	122	127	112	- 141	-1%	626
EBIT	97	87	94	98	80	- 117	-8%	508
PTP	91	73	82	87	68	- 109	-11%	449
EPS (reported)	0.38	0.30	0.33	0.36	0.28	- 0.46	-10%	1.82
Revenue growth-%	37.6 %	-8.3 %	-4.7 %	-3.2 %	-10.4 %	- 1.4 %	-3.6 pp	-2.3 %
EBITA-% (oik.)	10.1 %	10.0 %	9.7 %	9.9 %	9.5 %	- 10.5 %	0.3 pp	11.6 %

Source: Inderes & Vara, 11 estimates (consensus)

Discord did not result in significant changes at Group level

Estimate revisions 2024e-2026e

- Valmet's guidance for the current year is that in 2024, revenue will be at the same level as in 2023 and earnings (adjusted EBITA) will be at the same level or higher compared to 2023 (2023: revenue 5,532 MEUR, adjusted EBITA 619 MEUR). Reiterating the guidance was in line with our and the consensus expectation. The guidance now also includes the purchase of Siemens Gas Chromatography at the beginning of Q2, which has been in our and consensus forecasts for some time.
- We raised our earning forecasts for Services driven by revenue thanks to the better-than-expected Q1 orders and the raised market outlook for this year and the next few years that was made earlier than we expected.
- For Automation, forecast changes were minimal for now, although the slightly subdued orders for automation systems and the partly subdued demand outlook probably related to the forest sector raised the risks of the forecasts.
- The estimates of the Process Technologies segment decreased for both units driven by revenue. However, we expect that Valmet, who has kept fixed costs under control in a good cycle, can keep the unit's adjusted EBITA % at the current low level of some 4-5% through savings measures (incl. reduced subcontracting, temporary lay-offs and other efficiency measures), even though revenue is falling rapidly.

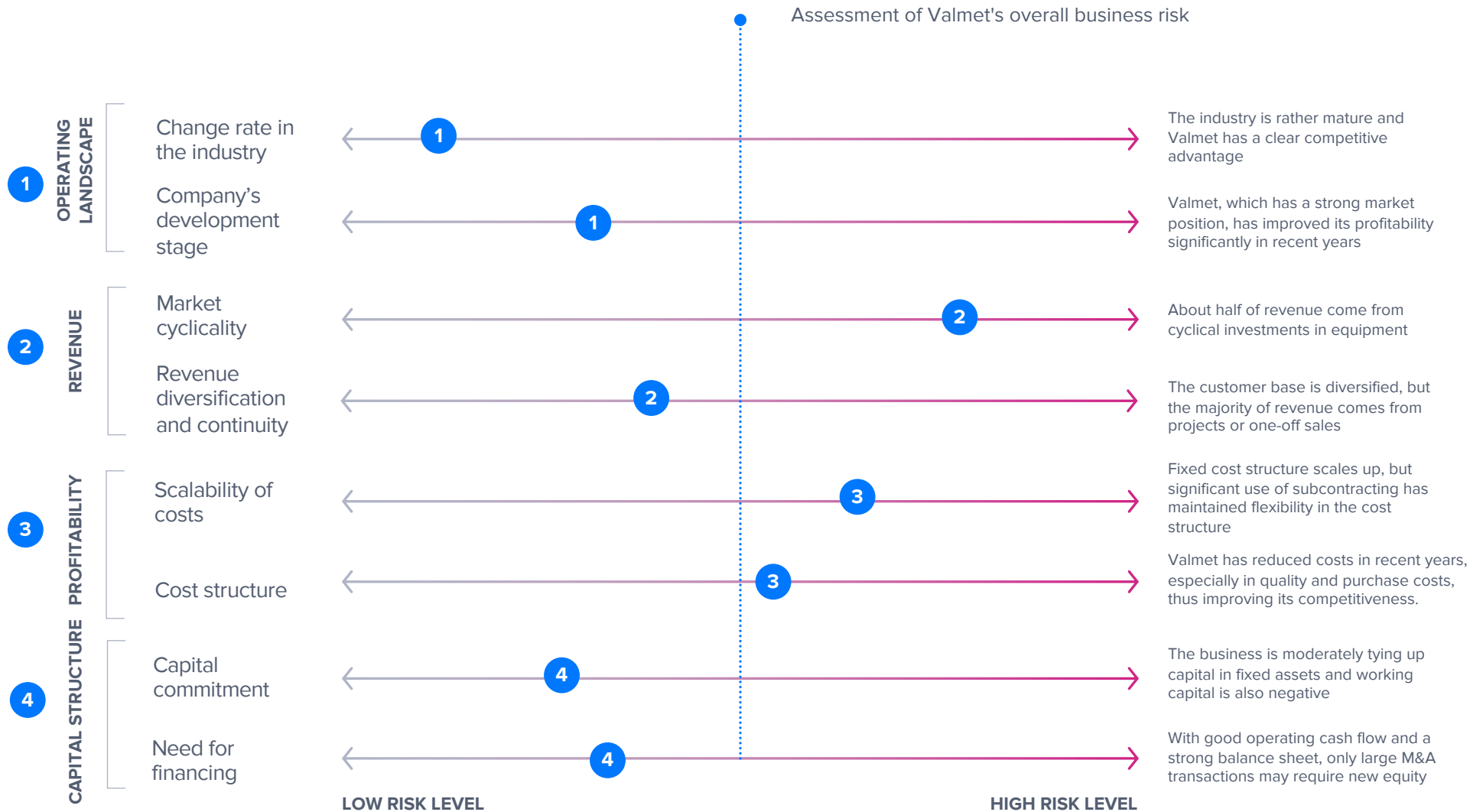
Operational result drivers 2024e–2026e:

- We expect Valmet's revenue to decline by 2% this year and adjusted EBITA to rise to 2%. This means that our forecasts are at the lower end of the company's guidance. We remain cautious about the current year, especially due to the decline in the order backlog and the weak and uncertain short-term outlook in devices.
- We believe, Valmet will be able to improve profitability in the coming years, as the drop in revenue focuses on low-margin Process Technologies and high-margin Services will continue to grow in the coming years. In our forecasts, earnings growth also continues in diversified Automation supporting Group profitability. However, there is a risk associated with the development of Automation, as the unit is indirectly exposed to device investments in the forest sector.
- We expect adjusted EPS to be virtually stagnant in 2024-2025, as the rising debt due to acquisitions and rise in interest rates weaken net profit. In the operating result, small improvements in stable businesses are spent covering the revenue-driven hole in device businesses (earnings mix improves).

Estimate revisions MEUR / EUR	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	5424	5404	0%	5267	5049	-4%	5407	5303	-2%
EBIT (adj.)	594	599	1%	611	598	-2%	658	649	-2%
EBIT	508	508	0%	533	520	-2%	582	573	-2%
PTP	450	446	-1%	485	467	-4%	539	525	-3%
EPS (adj.)	2.19	2.22	2%	2.30	2.23	-3%	2.55	2.49	-2%
DPS	1.40	1.40	0%	1.45	1.45	0%	1.43	1.50	5%

Source: Inderes

Risk profile of the business model



Valuation picture remains positive

Multiples are very moderate

Valmet's P/E ratios for 2024–2025 adjusted for PPA depreciation and NRIs are 11x, and adjusted EV/EBIT ratios are around 9x. Current multiples are 10-20% below Valmet's 5-year median. In our view, this reflects the moderate pricing of the share given the much-improved quality of the company in recent years (incl. improved profitability and increased share of stable businesses). However, earnings growth can be difficult to achieve over the next few years at adjusted EPS level. In our view, P/E adjusted for PPA depreciation and NRIs of 13x-16x and an adjusted EV/EBIT of 10x-12x are well justified valuation levels for Valmet in the current environment of higher interest rate expectations. Due to the lack of earnings growth, the bottom ends of the ranges are, naturally, more realistic reference points in the short term than the upper ends.

Relative discount not justified

In relative terms, Valmet is also priced at a severe average discount of around 30-40% compared to the peer group. We do not think this is justified after the Neles merger, but we think the company should be priced largely in line with the peer group. As a whole, we feel the pricing of the peer group is already fairly demanding (2024e: median P/E 17x) compared to the current interest rates and the weak economic outlook. Thus, we do not feel one can expect Valmet's undervaluation to dissolve merely through Valmet's price rise.

Expected return still good in our view

We estimate that Valmet's dividend yield will be around 6% in the coming years, in line with the company's track record, but with slower dividend growth than in recent years. The dividend supports the expected return and, together with Valmet's strong competitive advantages and healthy outlook

for stable businesses, provides patience to hold the company also over the weak device investment cycle that is now at hand and lies ahead. We believe that the risks associated with the dividend and its growth are limited, despite the cyclical risks in devices.

We expect Valmet's expected return over the next 12 months to come from the upside in the valuation multiples and the dividend, although the earnings growth driver could be slightly negative at the EPS level in 2024 and the improvement may be low also in 2025. We feel the stock's expected return rises above the required return as a sum of these components. In the medium term, we think that the expected return will be clearly positive, and starting from 2026, we also expect the main driver, i.e., earnings growth will start supporting the stock again.

DCF value still above the share price

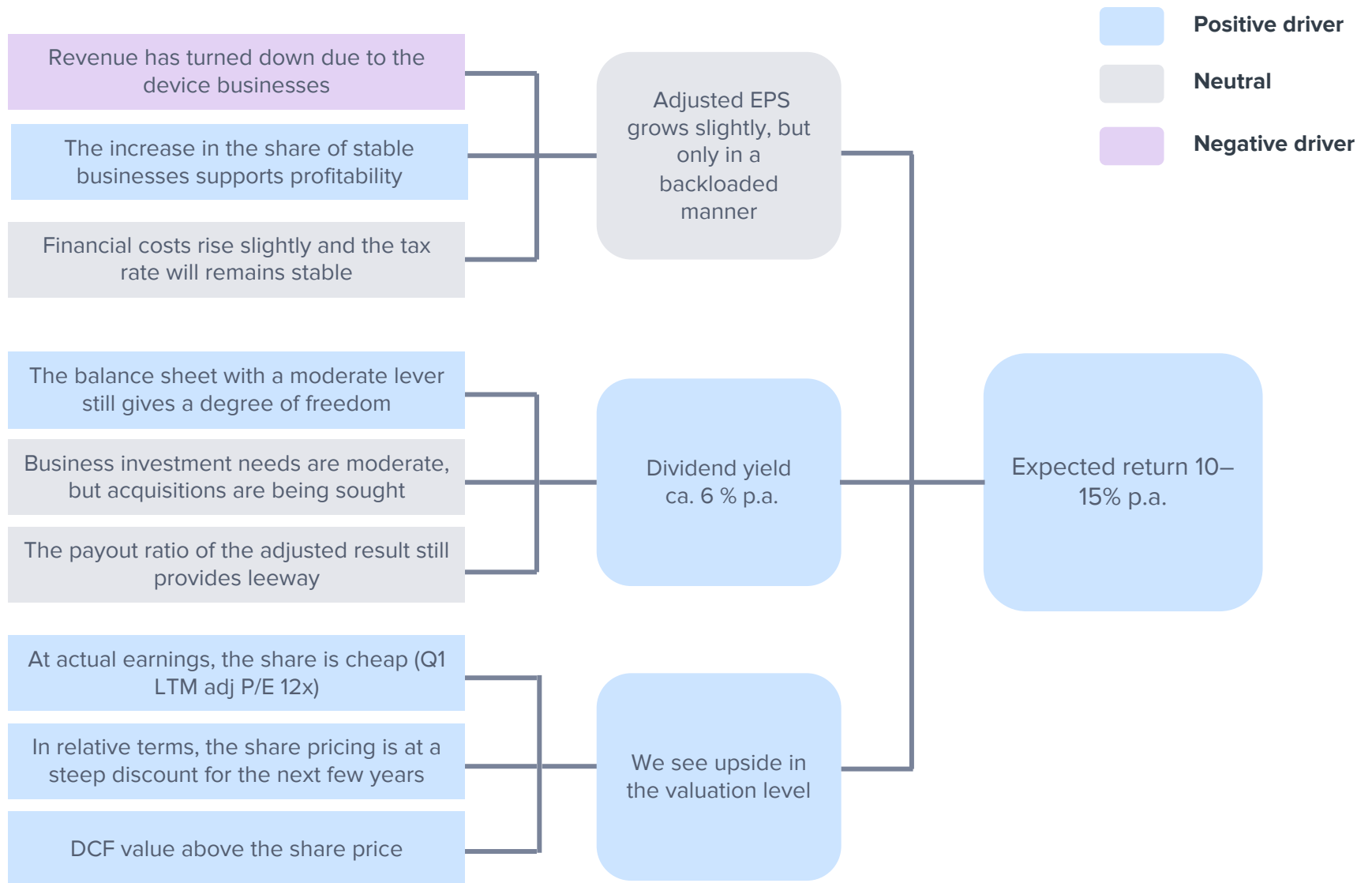
Our view of the share's upside is also supported by the DCF model, which emphasizes long-term potential and indicates a value that is above the share price as well. In the model, we do not expect Valmet to be able to deliver more than slow long-term and earnings growth, which is a conservative starting point given the company's competitive advantages, strong track record of improvement and proven acquisition potential.

Taking into account the overall picture, we believe that a positive view is well justified for Valmet and that the fair value of the share is higher than the current price. We feel that the balance sheet and volume-based valuation of the share (2024e: EV/S 1.0x and P/B 1.7x) still provide certain support for the share. Given the revenue share of Services and Automation and the nature of the businesses, we consider a collapse in the result unlikely, despite the continued high uncertainties in the forest sector and the macroeconomic environment.

Valuation	2024e	2025e	2026e
Share price	24.3	24.3	24.3
Number of shares, millions	184.5	184.5	184.5
Market cap	4491	4491	4491
EV	5533	5289	5049
P/E (adj.)	10.9	10.9	9.8
P/E	13.4	12.7	11.3
P/B	1.7	1.6	1.6
P/S	0.8	0.9	0.8
EV/Sales	1.0	1.0	0.9
EV/EBITDA	7.5	7.1	6.4
EV/EBIT (adj.)	9.0	8.8	7.8
Payout ratio (%)	76.4 %	76.2 %	66.8 %
Dividend yield-%	5.8 %	6.0 %	5.9 %

Source: Inderes

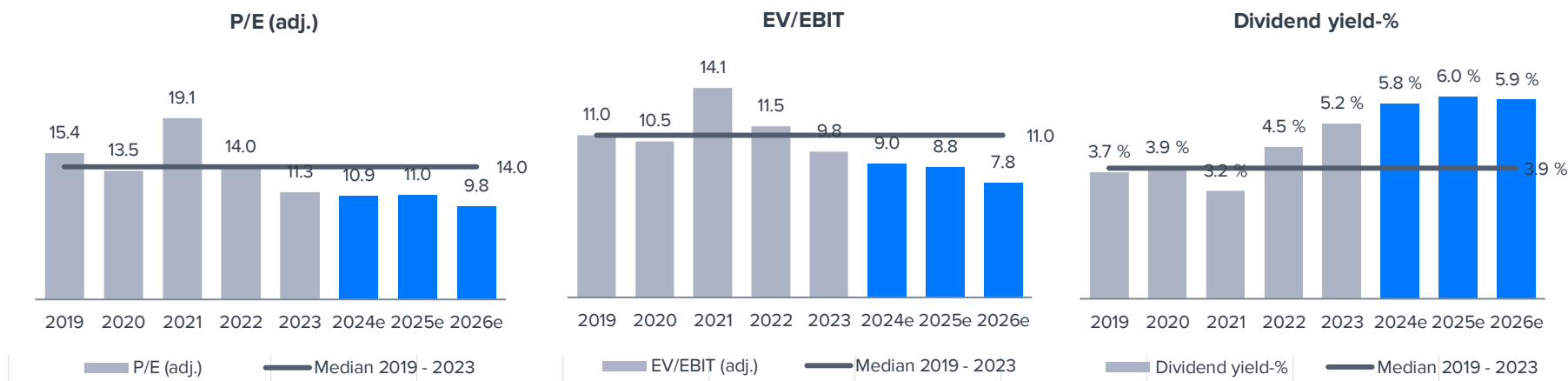
TSR drivers Q1'24 LTM-2026e



Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	21.4	23.4	37.7	29.0	26.1	24.34	24.34	24.34	24.34
Number of shares, millions	149.6	149.5	149.5	184.5	184.5	184.5	184.5	184.5	184.5
Market cap	3196	3492	5639	5351	4818	4491	4491	4491	4491
EV	3167	3733	5621	5893	5881	5452	5238	5023	4825
P/E (adj.)	15.4	13.5	19.1	14.0	11.3	10.9	11.0	9.8	8.9
P/E	15.9	15.1	19.0	15.8	13.5	13.3	12.8	11.4	10.1
P/B	3.1	3.1	4.3	2.1	1.9	1.7	1.6	1.6	1.5
P/S	0.9	0.9	1.4	1.1	0.9	0.8	0.9	0.8	0.8
EV/Sales	0.9	1.0	1.4	1.2	1.1	1.0	1.0	0.9	0.9
EV/EBITDA	8.2	8.8	10.8	9.2	8.4	7.5	7.1	6.4	5.8
EV/EBIT (adj.)	11.0	10.5	14.1	11.5	9.8	9.0	8.8	7.8	6.9
Payout ratio (%)	59.4 %	58.3 %	60.6 %	71.0 %	69.7 %	76.4 %	76.2 %	66.8 %	70.0 %
Dividend yield-%	3.7 %	3.9 %	3.2 %	4.5 %	5.2 %	5.8 %	6.0 %	5.9 %	3.9 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Atlas Copco	72275	74124	22.6	22.3	19.2	18.5	5.0	4.9	29.9	29.6	1.5	1.7	9.2
Sandvik	24816	28587	14.3	14.7	11.0	11.3	2.6	2.6	17.5	18.1	2.4	2.5	3.2
SKF	8822	9713	9.1	9.4	6.9	6.9	1.1	1.1	12.7	13.4	3.4	3.5	1.8
Wärtsilä	9198	9246	18.6	14.2	14.1	11.2	1.5	1.4	27.8	20.2	2.0	2.5	4.0
ABB	85924	88312	18.5	17.3	15.9	14.9	3.0	2.8	24.6	23.0	2.0	2.0	6.6
Andritz	5834	5185	7.5	7.4	5.7	5.6	0.6	0.6	10.9	10.5	4.3	4.7	2.6
Cargotec	4067	4196	8.0	11.1	6.6	8.1	0.9	1.0	10.7	13.7	2.7	2.9	2.4
Konecranes	3879	4224	10.1	9.4	8.1	7.6	1.1	1.0	14.0	12.8	2.8	3.0	2.4
Metso	9177	10041	12.4	12.1	10.4	10.3	1.9	1.9	16.0	16.0	3.1	3.4	3.5
Alfa Laval	15181	16077	19.4	17.3	15.6	14.1	2.9	2.7	24.9	22.5	1.7	1.9	4.5
Valmet (Inderes)	4491	5452	9.0	8.8	7.5	7.1	1.0	1.0	10.9	11.0	5.8	6.0	1.7
Average			14.0	13.5	11.4	10.9	2.1	2.0	18.9	18.0	2.6	2.8	4.0
Median			13.3	13.2	10.7	10.7	1.7	1.6	16.8	17.1	2.6	2.7	3.3
Diff-% to median			-32%	-33%	-30%	-34%	-40%	-36%	-35%	-36%	125%	119%	-49%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	5074	1321	1417	1295	1499	5532	1212	1369	1306	1517	5404	5049	5303	5608
Services	1606	389	457	429	509	1784	406	457	450	549	1862	1974	2053	2135
Automation	1040	304	338	311	375	1328	309	369	345	409	1431	1492	1552	1606
Process Technology	2428	628	623	554	615	2420	497	543	511	560	2111	1583	1698	1868
EBITDA	639	155	179	169	201	703	141	177	183	229	730	738	784	834
Depreciation	-203	-58	-43	-42	-53	-196	-54	-57	-57	-57	-225	-218	-211	-205
EBIT (adj.)	511	128	147	141	182	598	115	142	148	194	599	598	649	703
EBIT	436	97	136	127	148	507	87	120	126	172	505	520	573	629
Services (adj. EBITA)	237	63	79	79	91	312	60	75	81	101	318	339	353	367
Automation (adj. EBITA)	190	50	60	59	79	248	51	65	62	86	263	279	295	308
Process Technology (adj. EBITA)	145	30	29	25	26	110	21	24	26	28	99	63	85	112
Other (adj. EBITA)	-39	-9	-16	-13	-13	-51	-11	-14	-13	-13	-51	-52	-52	-53
Other intangible depreciation	-22	-5	-6	-5	-5	-21	-6	-8	-8	-8	-30	-32	-32	-32
PPA depreciation	-92	-29	-14	-14	-19	-76	-21	-22	-22	-22	-87	-78	-76	-74
NRI	17	-2	2	-4	-11	-15	-7	0	0	0	-7	0	0	0
Net financial items	-5	-5	-7	-7	-15	-34	-13	-15	-16	-16	-59	-53	-48	-38
PTP	431	91	129	120	133	473	73	106	110	157	446	467	525	590
Taxes	-94	-21	-30	-35	-29	-114	-17	-26	-28	-39	-111	-114	-129	-145
Minority interest	0	-1	0	0	0	-1	0	0	0	0	0	0	0	0
Net earnings	338	70	99	85	104	358	56	79	83	118	336	352	396	446
EPS (adj.)	2.07	0.58	0.52	0.52	0.69	2.31	0.43	0.52	0.54	0.73	2.22	2.23	2.49	2.74
EPS (rep.)	1.83	0.38	0.54	0.46	0.56	1.94	0.30	0.43	0.45	0.64	1.82	1.91	2.15	2.42
Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	29.0 %	37.6 %	10.2 %	0.6 %	-2.7 %	9.0 %	-8.3 %	-3.4 %	0.9 %	1.2 %	-2.3 %	-6.6 %	5.0 %	5.8 %
Adjusted EBIT growth-%	28.4 %	75.3 %	43.1 %	-2.4 %	-4.7 %	17.0 %	-10.2 %	-3.4 %	5.0 %	6.8 %	0.2 %	-0.3 %	8.5 %	8.3 %
EBITDA-%	12.6 %	11.7 %	12.6 %	13.0 %	13.4 %	12.7 %	11.6 %	13.0 %	14.0 %	15.1 %	13.5 %	14.6 %	14.8 %	14.9 %
Adjusted EBIT-%	10.1 %	9.7 %	10.4 %	10.9 %	12.1 %	10.8 %	9.5 %	10.4 %	11.3 %	12.8 %	11.1 %	11.8 %	12.2 %	12.5 %
Net earnings-%	6.7 %	5.3 %	7.0 %	6.6 %	6.9 %	6.5 %	4.6 %	5.8 %	6.3 %	7.8 %	6.2 %	7.0 %	7.5 %	7.9 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	3386	3768	3755	3632	3500
Goodwill	1611	1735	1785	1785	1785
Intangible assets	1030	1142	1075	972	875
Tangible assets	600	698	700	682	647
Associated companies	15.0	16.0	16.0	16.0	16.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	68.8	87.0	87.0	87.0	87.0
Deferred tax assets	62.0	90.0	90.0	90.0	90.0
Current assets	2887	3296	3274	3114	3228
Inventories	934	1049	1027	909	901
Other current assets	357	842	842	842	842
Receivables	1319	973	973	959	1061
Cash and equivalents	277	432	432	404	424
Balance sheet total	6273	7064	7027	6746	6728

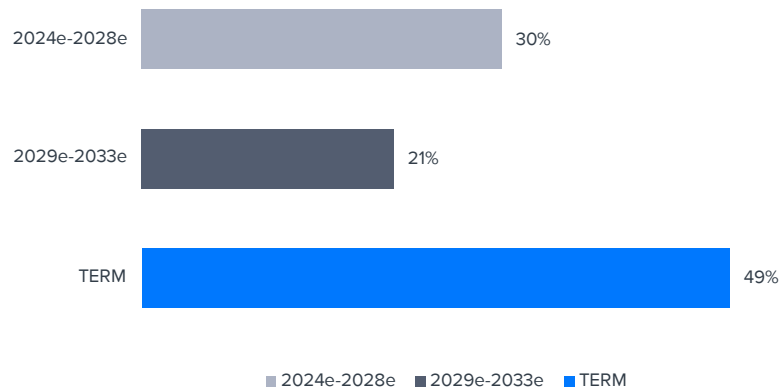
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	2501	2572	2659	2753	2881
Share capital	140	140	140	140	140
Retained earnings	999	1096	1185	1277	1405
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	1357	1330	1330	1330	1330
Minorities	5.0	6.0	6.0	6.0	6.0
Non-current liabilities	1034	1829	1666	1449	1273
Deferred tax liabilities	238	283	283	283	283
Provisions	38.0	42.0	42.0	42.0	42.0
Interest bearing debt	618	1338	1175	958	782
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	140	166	166	166	166
Current liabilities	2738	2663	2702	2544	2574
Interest bearing debt	190	146	289	234	190
Payables	1957	1671	1567	1464	1538
Other current liabilities	591	846	846	846	846
Balance sheet total	6273	7064	7027	6746	6728

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	9.0 %	-2.3 %	-6.6 %	5.0 %	5.8 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	2.0 %	2.0 %
EBIT-%	9.2 %	9.3 %	10.3 %	10.8 %	11.2 %	11.5 %	11.0 %	10.5 %	10.5 %	10.0 %	10.0 %	10.0 %
EBIT (operating profit)	507	505	520	573	629	664	654	643	663	650	663	
+ Depreciation	196	225	218	211	205	186	186	177	147	144	141	
- Paid taxes	-97	-111	-114	-129	-145	-155	-155	-154	-160	-158	-161	
- Tax, financial expenses	-8	-15	-13	-12	-9	-7	-5	-3	-2	-2	-2	
+ Tax, financial income	0	0	0	0	0	0	0	0	0	0	0	
- Change in working capital	-285	-81	28	-20	-52	-14	-15	-15	-16	-16	-11	
Operating cash flow	313	523	639	623	627	684	666	648	631	618	630	
+ Change in other long-term liabilities	30	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-549	-210	-97	-80	-110	-110	-110	-110	-110	-110	-149	
Free operating cash flow	-206	313	542	544	517	574	556	538	521	508	481	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	-206	313	542	544	517	574	556	538	521	508	481	7275
Discounted FCFF		296	471	434	380	388	346	307	274	246	214	3228
Sum of FCFF present value		6581	6285	5815	5381	5001	4626	4268	3961	3687	3442	3228
Enterprise value DCF		6581										
- Interest bearing debt		-1484										
+ Cash and cash equivalents		432										
-Minorities		-10										
-Dividend/capital return		-249										
Equity value DCF		5270										
Equity value DCF per share		28.6										

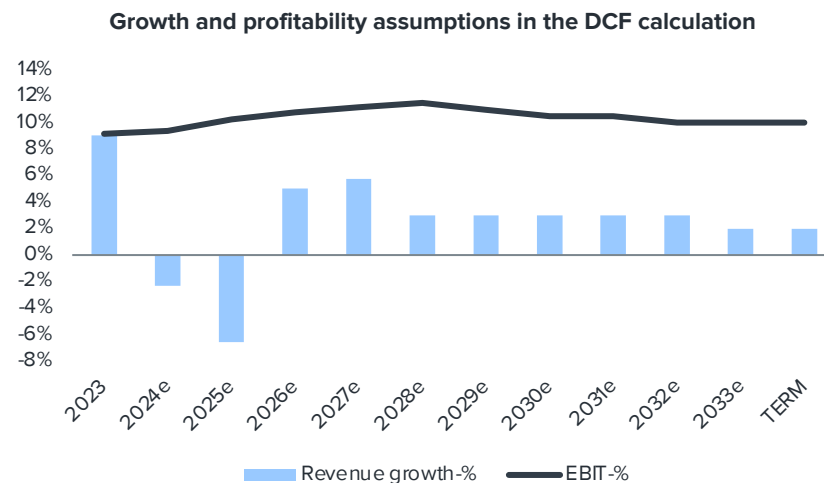
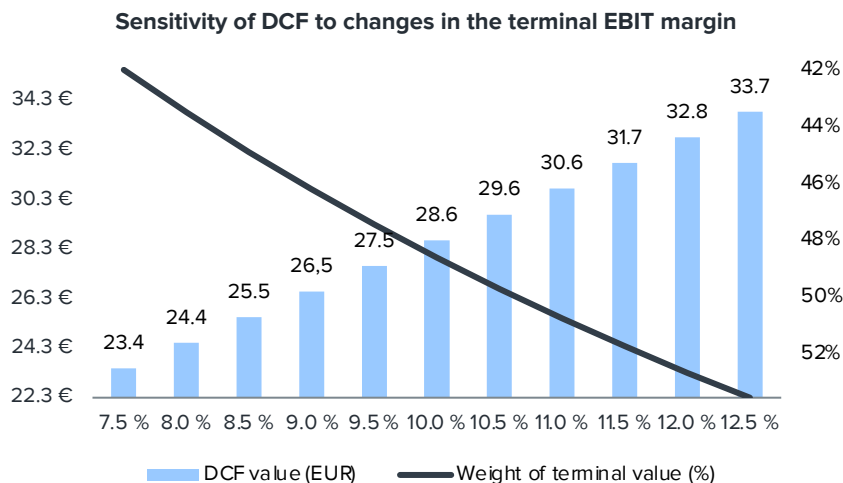
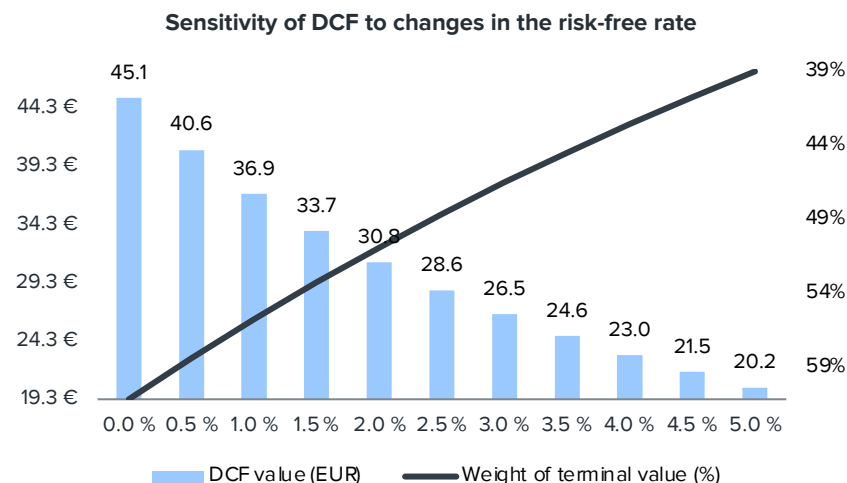
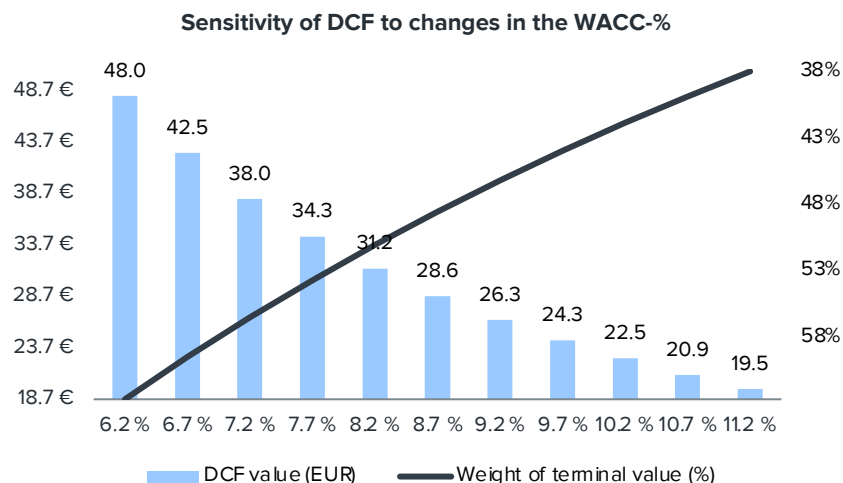
Cash flow distribution



WACC	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	4.0 %
Equity Beta	1.45
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	9.4 %
Weighted average cost of capital (WACC)	8.7 %

Source: Inderes

DCF sensitivity calculations and key assumptions in graphs



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	3934	5074	5532	5404	5049	EPS (reported)	1.98	1.83	1.94	1.82	1.91
EBITDA	521	639	703	730	738	EPS (adj.)	1.98	2.07	2.31	2.22	2.23
EBIT	399	436	507	505	520	OCF / share	3.88	10.39	1.70	2.84	3.46
PTP	396	431	473	446	467	FCF / share	2.46	-0.57	-1.12	1.70	2.94
Net Income	296	338	358	336	352	Book value / share	8.87	13.53	13.91	14.37	14.88
Extraordinary items	1	-75	-91	-94	-78	Dividend / share	1.20	1.30	1.35	1.40	1.45
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	4420	6273	7064	7027	6746	Revenue growth-%	5 %	29 %	9 %	-2 %	-7 %
Equity capital	1332	2501	2572	2659	2753	EBITDA growth-%	22 %	23 %	10 %	4 %	1 %
Goodwill	730	1611	1735	1785	1785	EBIT (adj.) growth-%	12 %	28 %	17 %	0 %	0 %
Net debt	-43	531	1052	1032	788	EPS (adj.) growth-%	15 %	5 %	11 %	-4 %	0 %
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	13.2 %	12.6 %	12.7 %	13.5 %	14.6 %
EBITDA	521	639	703	730	738	EBIT (adj.)-%	10.1 %	10.1 %	10.8 %	11.1 %	11.8 %
Change in working capital	160	-543	-285	-81	28	EBIT-%	10.1 %	8.6 %	9.2 %	9.3 %	10.3 %
Operating cash flow	581	1917	313	523	639	ROE-%	24.1 %	17.7 %	14.1 %	12.9 %	13.1 %
CAPEX	-164	-1982	-549	-210	-97	ROI-%	23.2 %	17.0 %	13.8 %	12.3 %	12.9 %
Free cash flow	368	-105	-206	313	542	Equity ratio	42.0 %	49.3 %	43.5 %	44.8 %	47.5 %
Valuation multiples	2021	2022	2023	2024e	2025e	Gearing	-3.2 %	21.2 %	40.9 %	38.8 %	28.6 %
EV/S	1.4	1.2	1.1	1.0	1.0						
EV/EBITDA (adj.)	10.8	9.2	8.4	7.6	7.2						
EV/EBIT (adj.)	14.1	11.5	9.8	9.2	8.8						
P/E (adj.)	19.1	14.0	11.3	10.9	10.9						
P/B	4.3	2.1	1.9	1.7	1.6						
Dividend-%	3.2 %	4.5 %	5.2 %	5.8 %	6.0 %						

Source: Inderes

Disclaimer and recommendation history

The information presented in Inderes reports is obtained from several different public sources that Inderes considers to be reliable. Inderes aims to use reliable and comprehensive information, but Inderes does not guarantee the accuracy of the presented information. Any opinions, estimates and forecasts represent the views of the authors. Inderes is not responsible for the content or accuracy of the presented information. Inderes and its employees are also not responsible for the financial outcomes of investment decisions made based on the reports or any direct or indirect damage caused by the use of the information. The information used in producing the reports may change quickly. Inderes makes no commitment to announcing any potential changes to the presented information and opinions.

The reports produced by Inderes are intended for informational use only. The reports should not be construed as offers or advice to buy, sell or subscribe investment products. Customers should also understand that past performance is not a guarantee of future results. When making investment decisions, customers must base their decisions on their own research and their estimates of the factors that influence the value of the investment and take into account their objectives and financial position and use advisors as necessary. Customers are responsible for their investment decisions and their financial outcomes.

Reports produced by Inderes may not be edited, copied or made available to others in their entirety, or in part, without Inderes' written consent. No part of this report, or the report as a whole, shall be transferred or shared in any form to the United States, Canada or Japan or the citizens of the aforementioned countries. The legislation of other countries may also lay down restrictions pertaining to the distribution of the information contained in this report. Any individuals who may be subject to such restrictions must take said restrictions into account.

Inderes issues target prices for the shares it follows. The recommendation methodology used by Inderes is based on the share's 12-month expected total shareholder return (including the share price and dividends) and takes into account Inderes' view of the risk associated with the expected returns. The recommendation policy consists of four tiers: Sell, Reduce, Accumulate and Buy. As a rule, Inderes' investment recommendations and target prices are reviewed at least 2–4 times per year in connection with the companies' interim reports, but the recommendations and target prices may also be changed at other times depending on the market conditions. The issued recommendations and target prices do not guarantee that the share price will develop in line with the estimate. Inderes primarily uses the following valuation methods in determining target prices and recommendations: Cash flow analysis (DCF), valuation multiples, peer group analysis and sum of parts analysis. The valuation methods and target price criteria used are always company-specific and they may vary significantly depending on the company and (or) industry.

Inderes' recommendation policy is based on the following distribution relative to the 12-month risk-adjusted expected total shareholder return.

Buy The 12-month risk-adjusted expected shareholder return of the share is very attractive

Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

Sell The 12-month risk-adjusted expected shareholder return of the share is very weak

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

The analysts who produce Inderes' research and Inderes employees cannot have 1) shareholdings that exceed the threshold of significant financial gain or 2) shareholdings exceeding 1% in any company subject to Inderes' research activities. Inderes Oyj can only own shares in the target companies it follows to the extent shown in the company's model portfolio investing real funds. All of Inderes Oyj's shareholdings are presented in itemised form in the model portfolio. Inderes Oyj does not have other shareholdings in the target companies analysed. The remuneration of the analysts who produce the analysis are not directly or indirectly linked to the issued recommendation or views. Inderes Oyj does not have investment bank operations.

Inderes or its partners whose customer relationships may have a financial impact on Inderes may, in their business operations, seek assignments with various issuers with respect to services provided by Inderes or its partners. Thus, Inderes may be in a direct or indirect contractual relationship with an issuer that is the subject of research activities. Inderes and its partners may provide investor relations services to issuers. The aim of such services is to improve communication between the company and the capital markets. These services include the organisation of investor events, advisory services related to investor relations and the production of investor research reports.

More information about research disclaimers can be found at www.inderes.fi/research-disclaimer.

Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
7/24/2019	Reduce	22.00 €	21.18 €
8/16/2019	Accumulate	18.00 €	15.72 €
10/25/2019	Accumulate	21.00 €	20.04 €
2/6/2020	Accumulate	25.00 €	23.94 €
3/13/2020	Accumulate	19.00 €	17.00 €
4/23/2020	Accumulate	20.00 €	18.81 €
6/4/2020	Reduce	23.00 €	24.37 €
7/23/2020	Accumulate	24.00 €	22.65 €
9/30/2020	Accumulate	24.00 €	21.63 €
10/28/2020	Accumulate	23.00 €	20.28 €
12/30/2020	Accumulate	25.00 €	23.29 €
2/5/2021	Accumulate	30.00 €	28.02 €
3/11/2021	Accumulate	30.00 €	28.60 €
4/19/2021	Accumulate	36.00 €	33.97 €
4/23/2021	Accumulate	36.00 €	34.45 €
7/5/2021	Accumulate	36.00 €	35.02 €
7/23/2021	Accumulate	38.50 €	36.69 €
10/27/2021	Accumulate	38.50 €	34.66 €
2/4/2022	Accumulate	37.00 €	32.80 €
4/5/2022	Accumulate	32.00 €	28.08 €
4/28/2022	Buy	32.00 €	25.31 €
7/21/2022	Buy	32.00 €	24.66 €
7/28/2022	Buy	32.00 €	24.70 €
10/27/2022	Buy	32.00 €	23.23 €
1/31/2022	Accumulate	32.00 €	29.00 €
2/2/2023	Accumulate	34.00 €	32.30 €
4/27/2023	Accumulate	34.00 €	29.91 €
7/27/2023	Accumulate	29.00 €	24.98 €
10/26/2023	Buy	27.00 €	20.23 €
2/8/2024	Accumulate	28.00 €	26.13 €
4/25/2024	Accumulate	28.00 €	24.43 €

ESG

Core activities are outside the taxonomy classification

Among Valmet's businesses eligible for taxonomy in 2023 were manufacturing renewable energy technologies, manufacturing of other low-carbon technologies, providing and repairing, refurbishing and remanufacturing of data-driven IT/OT solutions. Consequently, machine, device and partly service deliveries that generate a majority of Valmet's revenue are outside the taxonomy classification.

As a result, the taxonomy rate of Valmet's revenue, operating costs and investments remains low. Furthermore, the taxonomy rates are unlikely to rise if future taxonomy definitions do not include a much larger share of the company's external revenue-generating products. The current taxonomy classification does not cover all sustainable businesses. We do not believe that the low taxonomy rate puts immediate upward pressure on, for example, Valmet's cost or availability of financing, or results in other business challenges.

The company is indirectly exposed to forest sector regulation

We believe the direct environmental policy elements related to Valmet's business are relatively small. On the other hand, as a company focused on the forest sector, Valmet is indirectly exposed to regulation related to the forest sector. On the other hand, the company can help its customers in the forest sector adapt to regulation at least in certain respects. For the time being, we do not see any direct short-term economic impacts of taxonomy, such as significantly lower financial costs, even though the company has a syndicated credit line linked to the progress of climate measures.

We do not expect significant investment needs from pursuing climate goals

Valmet updated its climate program in March 2021. Valmet's climate program is accordant with the Paris Agreement's 1.5 degrees Celsius target. We believe the key role for Valmet is especially Scope3 emissions, which the company has limited direct influence on. In light of current data, we estimate that moving towards the climate target will not impose significant and surprising additional short-term costs for Valmet but we await further information on this. We also do not expect future investment needs to rise significantly based on the targets, although we estimate that both achieving the target and the related need for investments will depend heavily on the development of the energy and transport sector towards zero-emissions.

Taxonomy eligibility	2022	2023
Revenue	4%	5%
OPEX	2%	1%
CAPEX	2%	1%

Taxonomy alignment	2022	2023
Revenue	1%	26%
OPEX	0%	26%
CAPEX	0%	11%

Climate

Climate goal	Yes	Yes
Target according to Paris agreement (1.5 °C warming scenario)	Yes	Yes



Inderes democratizes investor information by connecting investors and listed companies.

We help over 400 listed companies better serve investors. Our investor community is home to over 70,000 active members.

We build solutions for listed companies that enable frictionless and effective investor relations. For listed companies, we offer Commissioned Research, IR Events, AGMs, and IR Software.

Inderes is listed on the Nasdaq First North growth market and operates in Finland, Sweden, Norway, and Denmark.

Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

Award-winning research at [inderes.fi](https://www.inderes.fi)



**STARMINE
ANALYST AWARDS
FROM REFINITIV**



THOMSON REUTERS
ANALYST AWARDS



Juha Kinnunen
2012, 2016, 2017, 2018, 2019, 2020



Mikael Rautanen
2014, 2016, 2017, 2019



Sauli Vilén
2012, 2016, 2018, 2019, 2020



Antti Viikainen
2014, 2015, 2016, 2018, 2019, 2020



Olli Koponen
2020



Joni Grönqvist
2019, 2020



Erkki Vesola
2018, 2020



Petri Gostowski
2020



Atte Riikola
2020

**Connecting investors
and listed companies.**